

Total Tax Contribution Luxembourg

This second edition of our survey provides data and insight on the Total Tax Contribution of Luxembourg's biggest companies

June 2013



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Foreword

We are glad to present the second edition of Total Tax Contribution (TTC) Luxembourg which remains a unique tool for Luxembourg companies wishing to quantify and communicate their total tax burden.

The idea behind such a study is not only to show our determination in assisting Luxembourg companies understanding their total tax cost but also to more broadly identify trends and provide some guidance for private and public stakeholders in their discussions on political and economic matters.

While private businesses are increasingly put under scrutiny, we want to objectively present figures as they were freely provided by the participants.

We thank the participating companies for their support and encourage other Luxembourg companies to contribute to the next study.

Wim Piot
Tax Leader, PwC Luxembourg

Key findings

Over 117 companies contacted, 30 corporate groups participated in the survey, representing a participation rate of 26%.

26%

participation rate

The sample comprises: Financial Services (63.3%), Manufacturing Industry (20%) and Commerce & Services (16.7%).

Financial Services

63.3%

- Banking
- Asset Management
- Insurance
- Private Equity

Manufacturing Industry

20%

- Industrial engineering
- Automotive
- Industrial products

Commerce & Service

16.7%

- Retail
- Public transportation

Collectively, the 30 participants employ 10,230 employees which is 3% of the workforce in Luxembourg.

10,230
employees

3%
of Luxembourg
workforce

The average company spends

€ 22,241 or

Hrs 120 on compliance.

In absolute figures, the Total Tax Contribution of the participants amounts to € 672 M out of which € 188 M are classified as taxes borne and € 484 M as taxes collected.

€ 188M
Taxes borne

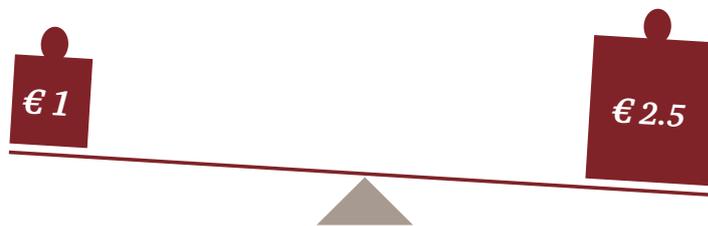
€ 484M
Taxes collected

€ 672M
Borne and collected

The € 672M in taxes borne and collected are equivalent to 4.5% of total government receipts.

€ 672 M **4.5%**

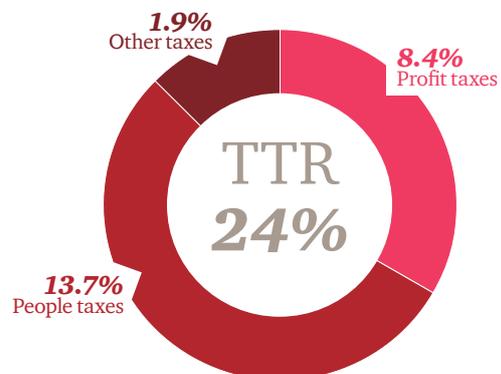
For € 1 tax borne, a company also collects a further € 2.5 on behalf of the tax authorities.



On average a participant's employee earns € 72,441 a year and remits € 32,160 to the Treasury via the company which acts as a collection point.



The average Total Tax Rate (TTR) is 24% which means that for every € 4 profit made by the survey participants, almost € 1 is paid in taxes borne.



Executive summary

This is the second edition of our TTC survey for Luxembourg.

For companies, TTC aims to:

- highlight the importance of all taxes as well as corporate income tax for fiscal year 2010,
- benchmarking their results to the other participants.

For public and private stakeholders, the study may:

- help understand the weight of all taxes paid by a sample of Luxembourg companies,
- be a policy instrument to benchmark the country's tax policy vis-à-vis other countries, and
- help design new fiscal resources.

Survey results

- The total taxes paid by the study participants in 2010 represents 4.5% of the Luxembourg government's tax receipts.
- In Luxembourg, a company is subject to 31 taxes in total, including 18 taxes borne and 13 taxes collected. Based on our results, on average, a company pays 8.5 taxes borne and 4.4 taxes collected.
- In total, 30 participants have replied to the survey. According to their activities, they have been divided into three sectors:
 - Manufacturing Industry,
 - Financial Services, and
 - Commerce & Services.
- The main sector represented is Financial Services with 63.3%, mainly composed of banks, asset managers, private equity and insurance companies. Then comes Manufacturing Industry with 20% closely followed by Commerce & Services with 16.7%.
- Collectively, the 30 participants employ 10,230 employees which represents 3% of the workforce in Luxembourg.
- Taxes borne by survey participants amounted to € 188M in 2010. According to our 5Ps distinction, the main taxes borne are people taxes with 43.91% and profit taxes with 42.09%. Our results of the taxes borne by type of tax indicate that social security contribution (employer's share) and Corporate Income Tax (CIT) are the main contributors with 43.91% and 30.49% respectively.
- Taxes collected by survey participants amounted to € 484M in 2010. According to our 5Ps distinction, the main taxes collected are people taxes with 85.58% and product taxes with 13.75%. Our results indicate that wage taxes with 49.10%, social security contribution (employees' share) with 26.96% and VAT with 11.30% are the main taxes collected.
- VAT, as a tax borne and collected represents 4.5% of the Luxembourg government VAT receipts.
- The average of the total amount of taxes borne and collected by companies as percentage of turnover (so called "TTC to turnover") is 14%.
- The average TTR used to measure the effective tax burden of a company, is 24%.

International comparison

- The TTC survey has been carried out in a number of other countries around the world based on the same methodology. Therefore, we compared our results to Canada, South Africa, the Netherlands, Belgium, India, Australia, UK, USA and Switzerland for years ranging from 2006 to 2011.
 - Luxembourg is among the countries having the lowest average number of taxes borne and collected.
 - With a TTC to turnover of 14%, Luxembourg has one of the lowest rates of TTC to turnover.
 - The Luxembourg TTR of 24% is the lowest rate in this small sample group although this rate is certainly not excessively lower than a number of other developed economies like the Netherlands, Switzerland and Canada.
 - The score of Luxembourg in terms of TTR needs to be assessed against the background of a relatively high overall employment cost.
- Compared to OECD countries,
 - Luxembourg, with an aggregate statutory rate of 28.59% for 2010, stood in the middle.
 - The total tax revenue for Luxembourg in 2010 was approximately € 15,000M which corresponds to 37% of its Gross Domestic Product (GDP). Luxembourg is therefore in the top 3 of the OECD countries. It increased from 35.5% in 2008 to 37% in 2010.

Conclusion

This TTC study shows that Luxembourg companies have an average Total Tax Rate of 24% on profit before all taxes borne. Paying Taxes corroborate this conclusion. The results show a large amount of people taxes underlining the importance of the tax contribution of the biggest Luxembourg companies having a significant number of employees. Finally, in addition to the direct impact that participating companies have on government tax revenues, participants play a major indirect role as tax collector.

Introduction

Total Tax Contribution background

The PwC global network through its different studies is eager to create, maintain, and strengthen links between companies and governments as well as between companies and society. While the actions of companies, regardless of their industry sector, are increasingly put under scrutiny, it is essential to facilitate dialogue between the different stakeholders, promote strong values and principles and innovate by sharing analyses and ideas. Following this line of conduct, we decided a few years ago to participate in a range of worldwide studies and researches on tax issues.

Our dedicated team - the Luxembourg PwC Tax Research Group - has been particularly committed to providing a platform for government institutions and business players to engage in constructive discussions on the national tax system and potential related reforms. Our team is also considering the growing interest from governments and civil society for increasing business tax transparency.

In addition to our involvement in the TTC study, PwC Luxembourg also collaborates on the *Tax Freedom Day study* and conducts a global survey called *Paying Taxes* every year.

The Tax Freedom Day (TFD) is the symbolic date on which the average tax payer stops working for the Treasury and begins earning for himself. It results in the computation of the total taxes paid by the average tax payer as a percentage of their total revenue, and is calculated by dividing the total tax revenue of general government by the national GDP.

In other words, *TFD* measures the overall tax burden borne by the citizens of a given country in a particular year. All direct and indirect taxes levied by any level of government (i.e. national or communal) are taken into account.

Based on the estimation performed by PwC Luxembourg, the *TFD* for Luxembourg was on 20 May in 2012. The underlying tax rate calculated by PwC as a percentage of GDP for Luxembourg was approximately 38.11% in 2012. Luxembourg stood in fifth place in 2011 and maintained this ranking in 2012.

Countries having a better *TFD* are: Slovakia (10 April 2012), the USA (17 April 2012), Cyprus (1 May 2012) and Hungary (17 May 2012). After Luxembourg, follows: The Netherlands, (23 May 2012) and Belgium, (14 June 2012). The last country remains Sweden with a *TFD* on 30 June 2012¹. In 2013, the *TFD* for Luxembourg is 21 May.

Paying Taxes is another project adopting a micro-economic approach conducted by PwC jointly with the World Bank.

Paying taxes records the taxes and mandatory contributions that a model medium size company must pay in a given year as well as measuring the administrative burden of paying taxes and contributions.

For each country, the *Paying Taxes* main indicators provide the TTR², the time to comply with tax obligations as well as the number of payments. The strengths of the study are not only the ability to compile data for 183 countries but also to provide an insight into each country's tax system according to a consistent methodology.

¹ Tax Freedom Day 2012, p.4 by PwC Belgium- Katholieke Universiteit Leuven – www.taxfreedomday.be.

² The Total Tax Rate compares the total of taxes borne with the profit before total taxes borne.

According to the 2013 Paying Taxes study, published in November 2012, Luxembourg has an average TTR of 21%. Luxembourg remains first among its European neighbours for the fifth year in a row. Luxembourg stands in 14th place when compared with all countries (i.e. 183 countries in total). This relatively low rate is due to the availability of important tax credits for investment³ in Luxembourg, which offset the corporate income tax liability of the case study company.

These tax credits should, however, not be understood as standard tax benefits applicable to all Luxembourg companies operating on an ongoing basis. Indeed, although the tax credits do not apply to sectors, industries or company size, they will only reduce the tax base if the company is in an investing phase. Luxembourg is closely followed by Cyprus with 23%, Ireland with 26.4% and Denmark with 27.7%. Belgium is the bottom end of the ranking with a TTR of 57.7% followed by France with 65.7% and Italy with 68.3%⁴.

The low TTR of Luxembourg needs to be assessed against the background of relatively higher labour cost in Luxembourg.

In this thought leadership context, PwC Luxembourg decided to launch the second edition of the Total Tax Contribution Survey to provide unique insights into the Luxembourg micro-economic tax environment based on data communicated by real Luxembourg companies. It also aims at sharing a detailed analysis of the Luxembourg macro-economic context and comparing Luxembourg's attractiveness among other European and worldwide countries. The results of this survey are detailed on page 15.

Total Tax Contribution model

The TTC survey is based on a standardised methodology developed by the PwC network. It provides companies with an interpretation of their actual total tax cost incurred in a given year.

On the microeconomic side, this study allows participating companies to quantify and benchmark their tax paid and understand the full impact on their business of all the taxes that they pay. It helps demonstrate how important contributors Luxembourg companies are and what their needs are to develop further activities in Luxembourg. The TTC survey covers not only CIT and Municipal Business Tax (MBT) but also the other taxes paid by a company (e.g. wage tax and property tax). It includes the taxes borne and collected by a company (see the definitions on page 12).

It is a framework that can be used on a country or industry basis. Additionally, the TTC methodology applies to companies regardless of their size or sector of activities. However, for the purpose of this survey, the number of employees was one of the selective criteria used to determine the 2010 panel. Indeed, as mentioned in the key findings, the 30 participants collectively represent 3% of the Luxembourg workforce.

³ Since 1 January 2013, the investment tax credit granted on additional investment has decreased from 13% to 12%. Additionally, the investment tax credit on global investment has also decreased from 3% to 2% for the portion of investment exceeding 150,000. The rate of 7% for the first portion of this investment not exceeding 150,000 remains unchanged. These changes will only impact the Paying Taxes project in the 2015 report since the study is based on data from the previous two years.

⁴ Website: <http://doingbusiness.org/-/media/GIAWB/Doing%20Business/Documents/Special-Reports/Paying-Taxes-2013.pdf>

The TTC framework relies on several principles as detailed below:

Definition of “tax”: what is regarded as tax under the TTC framework?

Originally, the legal definition of “tax” in Luxembourg can be found in the General Tax Law stated in German as follows:

„Steuern sind einmalige oder laufende Geldleistungen, die nicht eine Gegenleistung für eine besondere Leistung darstellen und von einem öffentlich-rechtlichen Gemeinwesen zur Erzielung von Einkünften allen auferlegt werden, bei denen der Tatbestand zutrifft, an den Gesetz die Leistungspflicht knüpft.“

This text means that taxes are single or periodic monetary payments which are imposed by public entities for the purpose of collecting revenue from all legal entities/individuals that the law renders liable to tax⁵.

This definition relates to criteria that are enumerated in the definition of “taxes” proposed in the OECD glossary⁶.

Under the TTC framework, a payment is qualified as “tax” if the following conditions are met:

- the payments are performed to a centralised administration,
- the payments are mandatory,
- there are no attributable services to a specific payment, and
- the payments are related to various areas, not only CIT.

If all these conditions are met, a payment is qualified as “tax” according to the TTC definition.

Taxes borne vs. taxes collected

The idea behind TTC is to establish a clear view on the Luxembourg tax system which starts first with practical information such as the number of taxes existing in Luxembourg. The enumeration of taxes listed in [Appendix 1](#) relates to corporate taxes. Therefore, it does not include personal taxes like lottery tax or inheritance tax.

Among the taxes suffered by corporations, TTC makes a distinction between taxes borne and taxes collected as follows:

- **Taxes borne** are taxes which a company itself bears as a taxable person and which impact its results. Taxes borne are charged to the company’s profit and loss account and will ultimately be passed on to customers, employees or shareholders. They include, in addition to CIT and MBT, all other taxes that have to be borne by a company, such as Net Wealth Tax (NWT), irrecoverable VAT, social security contributions (employer’s share), property tax, registration tax and numerous others. The detailed list of taxes borne is included in [Appendix 1](#).

- **Taxes collected** are defined as payments, which a company collects from third parties on behalf of the State and remits to the State. Taxes collected do not represent a financial cost for the company (other than the collection cost itself) and do not affect the company’s results. They are pure transit items and only affect the balance sheet of the company. However, the company bears the related administrative process and costs. Taxes collected include inter alia social security contributions (i.e. employees’ share), withholding taxes, net VAT, and tax at source for salaries. Although financially taxes collected are not an immediate cost to the company, it may be argued that there are costs to the company at least partially. Indeed, the higher the payroll tax or social security levied, the higher the salaries the company should pay to sustain a reasonable “take home” salary for the employees. The detailed list of taxes collected is included in [Appendix 1](#).

For some companies, there are some taxes that may be both a tax borne and a tax collected. For example, the social security contribution (employer’s share) is for the company a tax borne, while the social security contribution (employees’ share) is a tax collected.

⁵ Unofficial translation.

⁶ OECD – Glossary of statistical terms for “taxes”; Website: <http://stats.oecd.org/glossary/detail.asp?ID=2657>.

The five “Ps”

Under the TTC framework, the taxes borne and collected are also divided into the following sub-categories:

- **Profit:** all taxes based on the amount of profit (e.g. CIT, MBT and withholding tax on profit).
- **Property:** all taxes levied on the ownership of property/assets and the transfer of the ownership of property/assets (e.g. NWT, property tax and registration duty).
- **People:** all taxes and contributions relating to employees (e.g. wage tax and social security contributions).
- **Product:** all types of taxes levied on production, sales and use of goods and services and taxes levied in connection with the exchange of such services (e.g. VAT and Insurance Premium Tax).
- **Planet:** taxes on duties levied on the supply, use or consumption of certain goods and services which are considered harmful to the environment (e.g. garbage tax and tax on large vehicles).

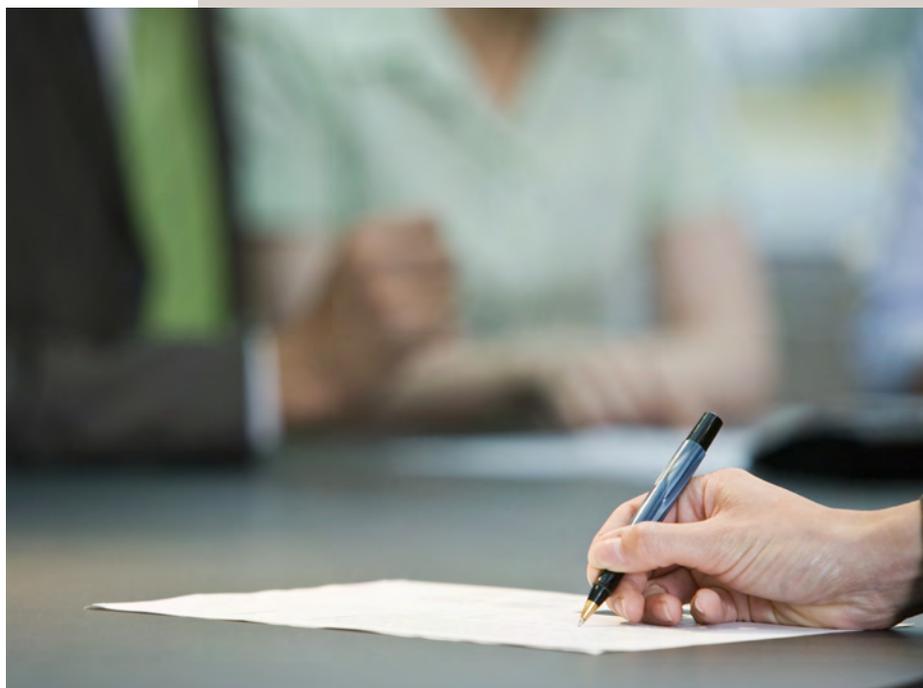
A detailed classification overview can be found in [Appendix 1](#).

TTR - Model calculation

TTC framework includes the computation of the TTR. The TTR measures the company’s total effective tax burden. This key figure compares the total of taxes borne with the profit before all taxes borne. The figure below illustrates the calculation of a TTR.

Table 1: TTR for the TTC survey – example of calculation

Commercial profit	a	70
Profit taxes borne (CIT+MBT)	b	30
Other taxes borne	c	30
Profit before all taxes borne	d=a+(b+c)	130
Total of taxes borne	e=b+c	60
TTR ⁷	f=e/d	46%



⁷ Percentage used for illustrative purposes only

Total Tax Contribution: scope, methodology and limitations

The scope of the survey is to measure companies' total tax contribution to the Luxembourg public finance for the accounting year 2010. PwC Luxembourg has conducted the TTC survey in collaboration with the *Business Federation Luxembourg* (FEDIL) and the *Confédération Luxembourgeoise du Commerce* (CLC). Both sponsors encouraged their affiliated companies to participate in the survey. However, no other material or financial support has been provided by the FEDIL and the CLC.

The list of potential participants has been established on the basis of turnover and number of employees. Turnover figures were available either in companies' financial statements or the Amadeus⁸ database. Information relating to the number of employees was taken from the public list of the biggest Luxembourg employers, updated every year by the *Institut national de la statistique et des études économiques du Grand-Duché du Luxembourg* (STATEC).

For the purpose of the results' analysis, all the respondents have been divided into three industry sectors, i.e. Commerce & Services, Financial Services and Manufacturing Industry and eight industry sub-sectors, i.e. Private Equity, Banking, Asset Management, Insurance, Retail, Manufacturing, Energy and Aerospace, to make sure that the survey results are of high quality and are representative of the contribution of the panel.

We carried out the same study for the accounting year 2008 using the same

methodology but a different panel of companies. This difference in the panel selection made it very difficult to establish significant trends between the 2008 and the 2010 results.

In 2010, out of 30 participants, eight companies participated in the previous survey for the year 2008. As data were comparable for five companies only, their results were used for the purpose of TTR trend analysis (see page 24).

For the purpose of the interpretation of the companies' data, figures have been extrapolated in some cases to evaluate what would be the contribution of the whole panel. See for example the compliance and cost data analysis (see page 17).

All references to company names are removed for confidentiality purposes and no list of participants will be published.

The survey has been conducted using a secured, web-enabled questionnaire designed by our team and provided via external software. The survey was carried out from March to October 2012.

31 Luxembourg taxes applicable to corporations have been identified and considered for the purpose of the 2010 survey. These comprise 18 taxes borne and 13 taxes collected.

Compared to the 2008 survey, "Capital duty", "Contribution to the Chamber of Commerce", "Stamp duty"⁹ and "Customs duty" have not been considered in the 2010 survey. Indeed, Capital duty has been abolished since 1 January 2009. The contribution to the Chamber of Commerce does not constitute a tax according to the

OECD definition¹⁰. For stamp duty, since the stamp duty amount reported by participants in the 2008 survey was not material, this tax has not been taken into account in the 2010 survey. Finally, given the nil amount of "customs duty" in the 2010 balance of Luxembourg national accounts, this tax has not been included in the list of identified taxes. Additionally, the majority of the transactions of our participating companies are taking place within the European Union. Therefore, since 1 July 1968 when the first free cross-border trade agreement was signed by six European countries and then extended to the other Member States, there is no customs duty levied on Member States' European circulation of goods and services.

The full list of identified Luxembourg corporate taxes can be seen in [Appendix 1](#) of the report.

In the case of some taxes, many survey participants reported that they found it difficult to identify the precise amount paid. This is particularly the case for planet taxes (either borne or collected) which proved difficult for most participants to accurately quantify. Therefore, PwC Luxembourg believes that the planet taxes information provided in this survey is materially understated.

PwC has neither verified, nor audited the data and cannot therefore provide any statements as to the accuracy of the survey results. The survey results have been influenced neither by the FEDIL nor the CLC.

⁸ Amadeus collects and shares comparable financial information for public and private companies. It contains comprehensive information on over 20 million companies across Europe.

⁹ Stamp duty is levied at various rates on the registration of notary deeds, bailiff deeds and certain judiciary's acts.

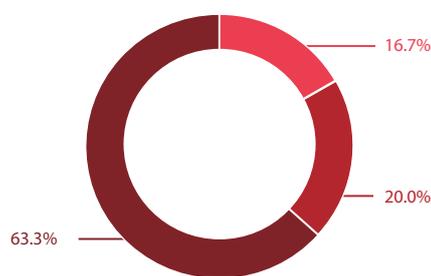
¹⁰ Chamber of Commerce is not a contribution to the State. For the definition of tax according the OECD definition, see page 12.

The survey results

Participants' industry sector

Chart 1 provides information regarding participants' sector of activities. Our participants have been categorised in three main sectors: Financial services, Commerce & Services and Manufacturing Industry. With 63.3%, Financial services include private equity, asset management, insurance, banking. Commerce & Services with 16.7% mainly include retail companies. Finally, Manufacturing with 20% relates mostly to the manufacture of goods.

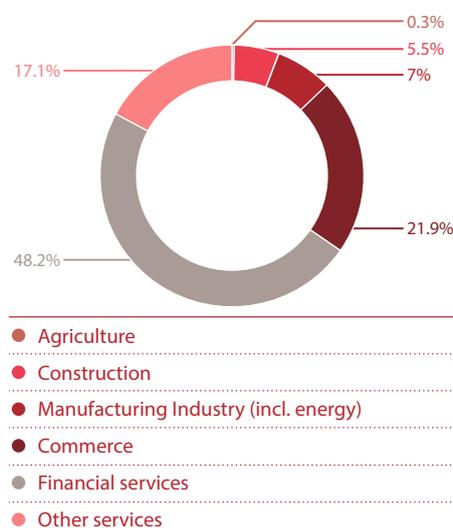
Chart 1: 2010 split of TTC participants per sector (in %)



- Commerce & Services
- Manufacturing Industry
- Financial Services

We compared the results in Chart 1 to the structure of Luxembourg GDP (Chart 2) to make sure the business profile of our panel is representative of the Luxembourg economy.

Chart 2: Industry split of Luxembourg GDP in 2010 (in %)¹¹



- Agriculture
- Construction
- Manufacturing Industry (incl. energy)
- Commerce
- Financial services
- Other services

Based on a comparison between our study panel per sector (Chart 1) and the 2010 split of Luxembourg GDP (Chart 2), we noticed that:

- Financial services are the main source of Luxembourg revenue with 48.2%, a figure which is reflected in our panel composition (more than 60%).
- The share of Commerce & Services in the national GDP is bigger than the one presented in the TTC survey. In percentage terms, in the Chart 2, Commerce is 21.9% and other services are 17% which is much higher than Commerce & Services in our TTC panel, which represents only 16.7%.
- Manufacturing Industry represents only 7% of Luxembourg GDP, while it is an important component of our panel, which represents 20% of the participants.
- Agriculture which accounts for only 0.3% of Luxembourg GDP is not represented in our panel. In addition, no company in Construction has taken part into the TTC survey, although this sector accounts for 5.5% of Luxembourg GDP in 2010.

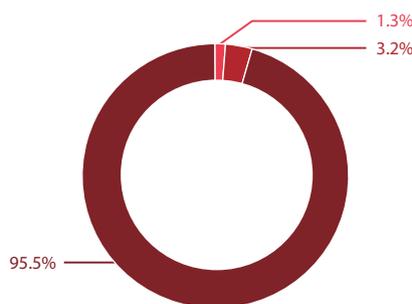
¹¹ STATEC, "Contribution des agrégats à la croissance en volume du PIB dans l'approche production"

Based on the figures represented in Charts 1 and 2, the main industry sectors in Luxembourg are well represented in the TTC survey, even though not in the same proportion.

Participants' Total Tax Contribution to Luxembourg tax revenue

Participants' total tax contribution amounts to € 672M in 2010 which represents 4.5% of the total taxes and contributions paid to and collected for the Treasury¹².

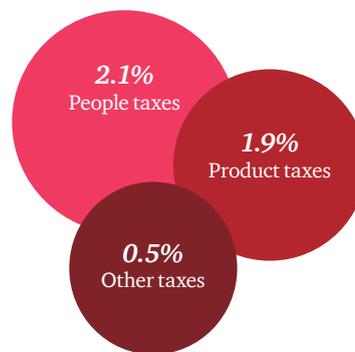
Chart 3: Total taxes paid and collected by participants as percentage of government tax receipts (in %)



- Participants' taxes borne
- Participants' taxes collected
- Other tax revenue and contributions

It is mainly composed of people tax of € 310M (i.e. 2.1% of government tax receipts) and product taxes of € 278M (i.e. 1.9% of government tax receipts).

Chart 4: Split of the contribution of TTC participants to government tax receipts (in %)



¹² The Luxembourg tax revenues amounts to € 14,9M in 2010. STATEC, "Impôts et cotisations sociales 1970-2012".

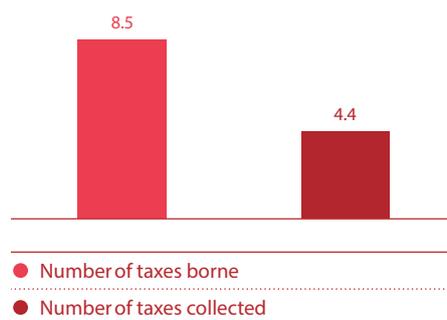
Number of taxes paid by the participants

In Luxembourg, a company can be subject to 31 taxes in total which is split between 18 taxes borne and 13 taxes collected.

On average, out of 18 existing taxes borne, participants pay 8.5 taxes. Similarly, out of 13 possible taxes collected, participants pay on average 4.4 taxes (Chart 5). In other words, on average, for each tax collected by a company, two taxes borne are paid.

However, even though a Luxembourg company makes on average more taxes borne payments than taxes collected ones, the total amount of taxes collected by the panel is much higher, i.e. € 484M than the taxes borne, i.e. € 188M. The Luxembourg companies are therefore an important tax collector for the Luxembourg tax administration.

Chart 5: Average number of taxes borne and collected by survey participants in 2010



Cost and Compliance

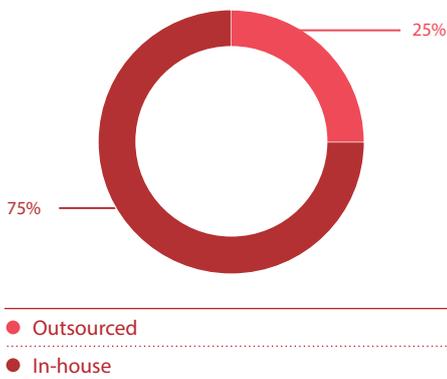
In this section we assess the burden of Luxembourg companies to comply with their corporate tax and VAT filing obligations through the number of their tax payments as determined in section “Number of taxes paid by the participants”. The higher the number of payments is, the heavier and riskier the burden. Indeed, companies that have a lot to report are more exposed in terms of compliance obligations (e.g. significant cost incurred to file, risk of mistakes due to lack of knowledge and penalties if there are delays in filing).

Compared with other countries, Luxembourg with an average of about 12.9 tax payments a year stands among the countries where compliance obligations are relatively low. Only Australia with 9, South Africa with 10.2 and India with 11 do better.

This will be further illustrated into the “International comparison” section (see page 29).

Based on this study, 75% of the participating companies comply in-house with their tax filing obligations against 25% of the companies that outsource tax filing, relying on external service providers.

Chart 6: Tax filing obligations performed in-house or outsourced (in %)



To further understand the burden of tax compliance for Luxembourg companies, participants have been asked to provide information on the time they spent internally to comply with their 2010 tax obligations (including corporate tax and VAT returns).

For the 75% participants that perform in-house their tax filing obligations, the results show that they spend on average 120 hours to file corporate tax and VAT returns (Chart 7).

Chart 7: Hours spent in-house to comply with 2010 tax filing obligations (in hours)



For the 25% of participants that outsource their tax filing obligations, the results show that they spend on average € 22,241 to file corporate tax and VAT returns (see Chart 8).

Chart 8: External cost incurred to comply with 2010 tax filing obligations (in €)



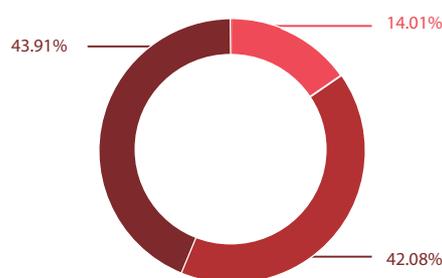
Taxes borne

Taxes borne by 5 Ps

In 2010, the survey participants record an amount of € 188M taxes borne. This amount represents 1.3% of the Luxembourg government tax receipts.

People taxes represent the most significant proportion of taxes borne by survey participants, i.e. € 86M corresponding to 43.91% of the total taxes borne, followed by profit taxes, i.e. € 78M corresponding to 42.08%. The other taxes borne, i.e. product, property and planet taxes, amount together to € 24M and accounted for 14.01% of the total taxes borne. This means that, for every € 1 of profit and people taxes paid, a company paid a further € 0.15 of other taxes.

Chart 9: Split of taxes borne by 5 Ps (in %)



● Other taxes
Product taxes 7.74%
Property taxes 6.22%
Planet taxes 0.05%

● People

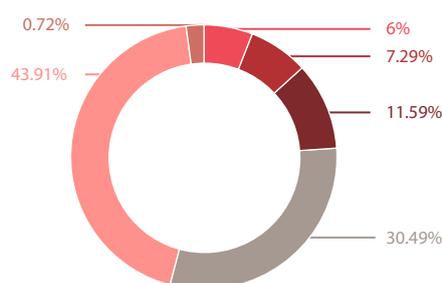
● Profit

Taxes borne by type of taxes

Chart 10 shows the contribution of the major taxes to the total taxes borne.

People taxes borne correspond to social security contribution (employer's share) only. The survey results highlight Luxembourg's reliance on this type of tax to generate significant revenue. This is also clearly a contributory factor to explain the relatively high labour cost in Luxembourg, which in turn has a significant impact on the country's competitiveness at an international level. This high labour cost could also be explained by the fact that Luxembourg jobs require highly skilled workers. The necessary qualifications are not only found among Luxembourg nationals but often among foreign people¹³. Therefore Luxembourg must remain attractive in terms of social security coverage and salary packages to attract these highly skilled people.

Chart 10: Taxes borne by type of taxes (in %)



● NWT

● Irrecoverable VAT

● MBT

● CIT

● Social Security Contribution (employer's share)

● Other

Profit taxes borne are taxes levied on profit and include CIT and MBT. The participants paid a total amount of € 53.9M for CIT, i.e. 30.49% of the total taxes borne, and a total amount of € 24.4M for MBT, i.e. 11.59% of the total taxes borne. 37% of survey participants do not pay any profit taxes at all. The main reasons for this were commercial losses for the financial year, use of carried forward tax losses and dividend exemptions.

Product taxes borne are taxes paid by the companies on the consumption and production of goods and services. They include irrecoverable VAT, Insurance Premium Tax (IPT), motor vehicle tax and fuel excise duty. In absolute figures, participating companies paid € 19.3M in product taxes, i.e. 7.74% of the total taxes borne (Chart 9). Out of this, irrecoverable VAT amounts to € 18.4M, representing the fourth largest type of taxes borne for the participants, i.e. 7.29%. Irrecoverable VAT is essentially borne by financial services providers. Manufacturing and commercial companies are in principle entitled to recover the VAT incurred on their purchases of goods and services (input VAT), with very few limitations.

¹³ OECD, Policy Brief, International Mobility of the highly skilled, July 2002 and <http://www.eurofound.europa.eu/ewco/studies/tn0807038s/lu0807039q.htm>

Property taxes borne are taxes paid by the companies on the ownership, sale or transfer of property and include NWT, subscription tax, property tax and registration duty on transfer, rental agreements and exchanges of real estate property. In absolute figures, participating companies pay € 4.6M of property taxes, i.e. 22% of the total taxes borne (see Chart 9). The largest property tax in absolute value borne by the survey participants is NWT with € 3.8 M representing the fifth largest type of taxes borne for the participants with 6%.

From Chart 9, it appears that the proportion of planet taxes is 0.05% of the total taxes borne. Planet taxes include the tax on large commercial vehicles («E-vignette»), garbage tax and energy tax. Many companies have found difficulties in collating data for taxes other than income tax and NWT.

In addition, these taxes apply to only relatively few participants. Consequently, this survey will provide a limited view on the effective burden of planet taxes for corporations in Luxembourg.



Taxes collected

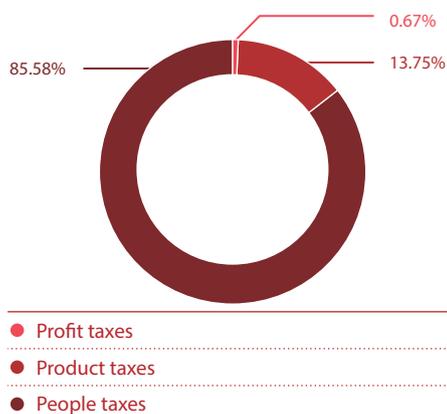
Taxes collected by 5 Ps

Survey participants collected taxes of € 484M on behalf of the Luxembourg tax authorities. This represents 3.2% of the Luxembourg government tax receipts.

For every € 1 of taxes borne paid by the survey participants, € 2.5 of taxes collected is levied. In addition, the taxes collected represent 72% of the total tax contribution. Companies indeed collect substantial amounts of tax on behalf of the Luxembourg authorities.

The largest part of taxes collected falls into the category “People” with 85.58%. People taxes are followed by product taxes with 13.75% and profit taxes with 0.67%.

Chart 11: Split of taxes collected by 5 Ps (in %)



Taxes collected by type of taxes

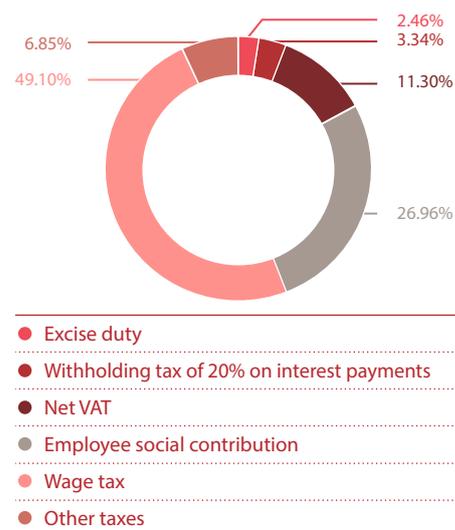
Chart 12 shows the contribution of the major taxes to the total taxes collected.

People taxes collected represent 85.58% of the total taxes collected mainly because of wage tax with € 106.3M, i.e. 49.10% of the total taxes collected and social security contributions (employee’s share) with € 82.2M, i.e. 26.96% of the total taxes collected.

Product taxes collected correspond to net VAT, IPT, excise duty, tobacco excise duty and alcohol excise duty. In absolute value, net VAT amounted to € 92.4M, representing on average the third largest type of taxes collected by the participants, i.e. 11.30%. None of the survey participants paid IPT, tobacco excise duty or alcohol excise duty in 2010.

Profit taxes collected correspond to the withholding tax of 15% on distributed dividend only. In absolute figures, it amounts to € 564,000. On average, it corresponds to 0.67% of the total taxes collected. This low figure can be explained by the fact that the sample was mainly made of companies in the financial sector that benefit from a withholding tax exemption.

Chart 12: Taxes collected by type of taxes (in %)



● Excise duty
 ● Withholding tax of 20% on interest payments
 ● Net VAT
 ● Employee social contribution
 ● Wage tax
 ● Other taxes

Total Tax Contribution to turnover: impact of the taxes borne and collected on companies' turnover

TTC as a percentage of turnover measures how much a company contributes to Luxembourg tax authorities, having regard to their turnover. For the purpose of this analysis, 26 out of 30 companies provided details of their turnover in 2010.

The average TTC to turnover amounts to 14% with the minimum close to nil, i.e. 0.07% and the highest value being 52%.

These variations depend mainly on people taxes and are therefore directly linked to the number of employees in the company.

Charts 13 and 14 show the distribution of total taxes borne and collected as a percentage of turnover across the survey population for 2010. At the top end of the distribution, one company remitted taxes in excess of 50% of its generated revenues.

Chart 13: Distribution of TTC to turnover among the 26 participants (in %)

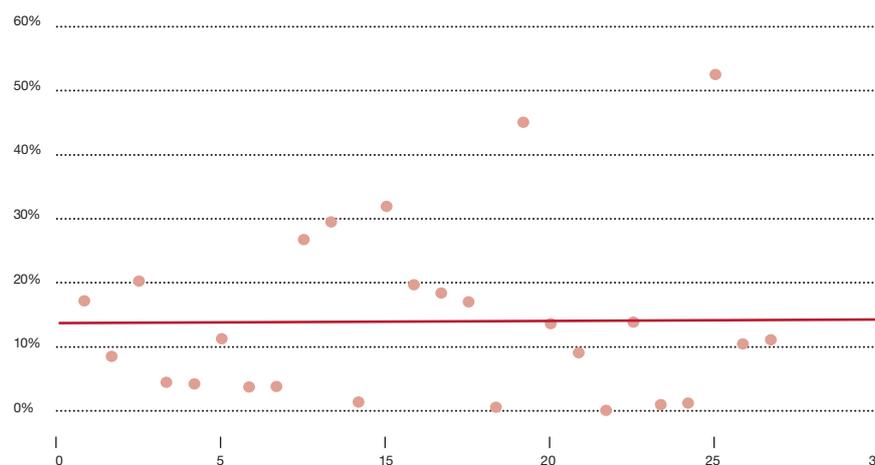
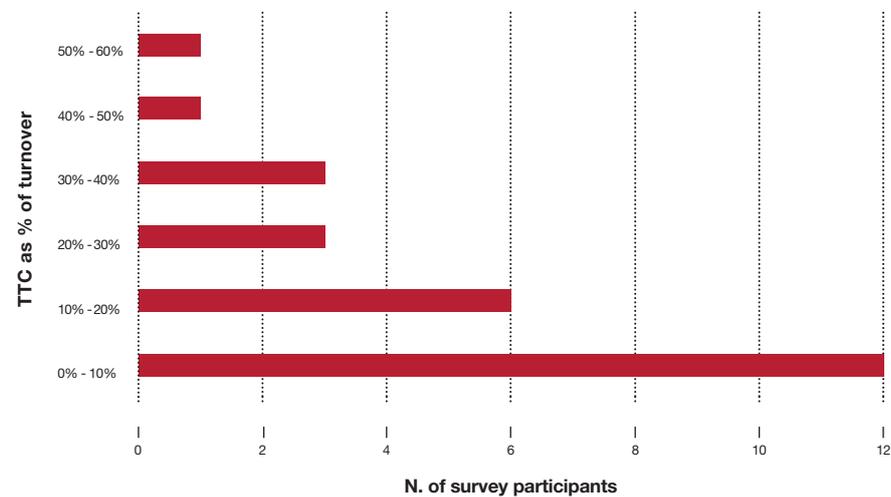


Chart 14: Distribution of TTC to turnover (in %)



More than half of the participants have a TTC to turnover between 0% and 20% which is below the average European rate, i.e. 16.3%¹⁴ (see page 29 for further details).

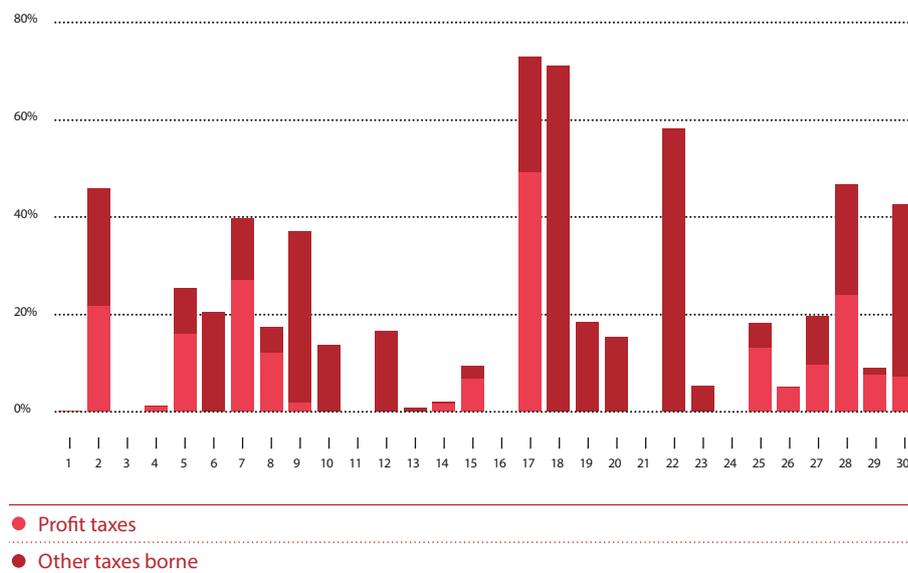
The other half has TTC to turnover between 20% and 52%. This corresponds mainly to companies in the Commerce & Services sectors. They have important operational activities in Luxembourg via the production of goods and services, which implies the purchase and sale of goods on which VAT is charged.

Therefore, the lowest rates do not correspond automatically to the lowest total tax contributors. In figures, the five companies having the lowest TTC to turnover rate still contribute up to 4% of the TTC paid by the survey participants whereas the five lowest contributors contribute 10 times less, i.e. 0.4%.

Total Tax Rate: impact of the taxes borne on profit

For the purpose of this section, five outliers have been excluded. These are companies having recorded a loss for the fiscal year 2010¹⁵ or a TTR higher than 100%.

Chart 15: TTR for survey participants (in %)



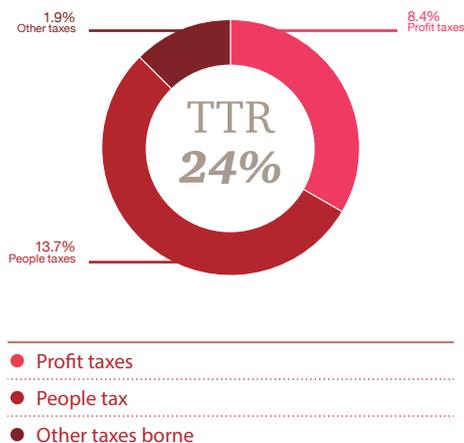
¹⁴ European rate is composed of TTC to turnover rates of the Netherlands, Luxembourg, Switzerland, UK and Belgium.

¹⁵ A loss for these purposes is a negative result before all taxes borne. See the definition of TTR on page 13.

The 2010 Luxembourg average TTR is 24% out of which 13.7% represents people taxes, 8.4% profit taxes and 1.9% other taxes borne composed of product, property and planet taxes (Chart 16). This means that for every € 4 profit made by the survey participants, almost € 1 was paid in taxes borne.

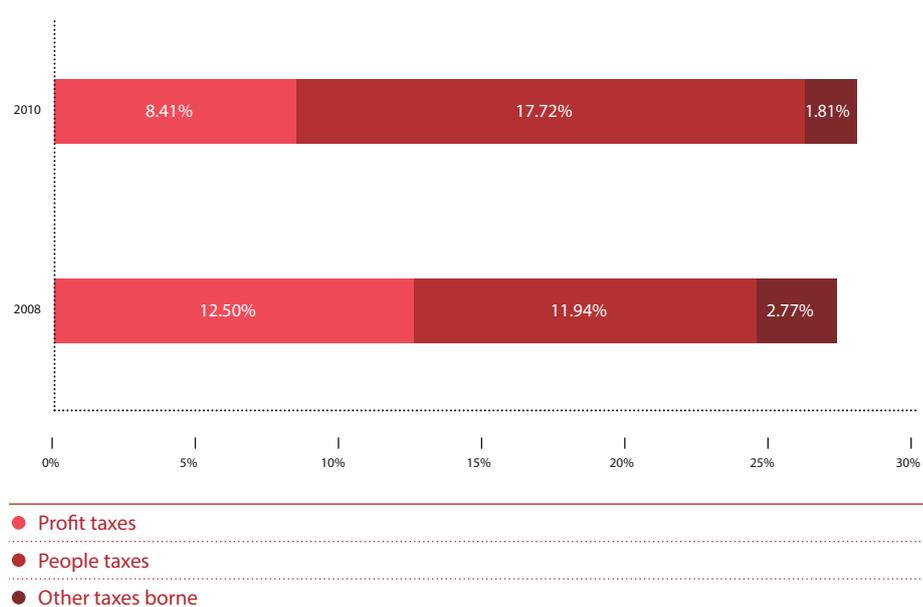
The TTR split clearly shows that profit taxes are not the only taxes suffered by Luxembourg companies.

Chart 16: Split of 2010 Luxembourg TTR (in %)



When compared with 2008 TTR based on the five companies having participated in both surveys, it can be noted that the TTR remains stable with 27.22% in 2008 against 27.94% in 2010. However, the difference between profit taxes and people taxes increased with a percentage of people taxes superior to profit taxes (i.e. 8.41% for profit taxes and 17.22% for people taxes in 2010) whereas the 2008 percentages of these two taxes were quite similar in 2008 (i.e. 12.50% for profit taxes and 11.94% for people taxes).

Chart 17: 2008/2010 TTR (in %)



People taxes

The 30 participating companies employed 10,230 workers representing 3% of the entire Luxembourg workforce¹⁶.

People taxes are an important part of the total taxes paid by the participants. The participants paid total people taxes of € 310M, including social security contributions, both employer and employee's shares, withholding tax of 10% on some interests paid to Luxembourg residents, withholding tax of 20% on interest paid to non-resident EU individuals, withholding tax of 20% on directors' fees, withholding tax on pension schemes, wage taxes and additional taxes collected from employees.

At 43.9% of the total taxes borne, people taxes are the largest tax cost for participants. At 85.58%, people taxes are the largest taxes collected. In other words, for one people tax borne, a company generates almost two people taxes collected. Taken together, people taxes (borne and collected) are on average 55% of the total taxes paid (borne and collected) by the participants. This 55% represents 2.1% of government tax receipts.

Table 2: Summary of people taxes amount as % of government tax receipts

	€	% of government receipts
People taxes borne		
Social Security (Employer's share)	86,001,106	0.58
TOTAL	86,001,106	0.58
People taxes collected		
Social Security (Employee's share)	82,247,082	0.55
Wage Tax Collected	106,386,816	0.71
Withholding tax of 20% on directors' fees	370,672	0,00
Withholding tax of 10% on some interests paid to Luxembourg resident	5,546,720	0,04
Withholding tax of 20% on interest paid to non-resident EU individuals	24,017,576	0,16
Withholding tax on pension schemes	5,893,782	0,04
Amount of additional tax collected	35,828	0,00
TOTAL	224,498,476	1.50
TOTAL PEOPLE TAXES (borne and collected)	310,499,582	2.08

¹⁶ STATEC. Luxembourg employment at December 2010: 358,600.

Based on our TTC findings, the average salary per employee is € 72,441¹⁷, which is above the Luxembourg average national wage of € 53,107¹⁸. The average taxes paid in relation to each employee is € 32,160.

Chart 18: Average wage per employee vs. average employment taxes per employee (in €)



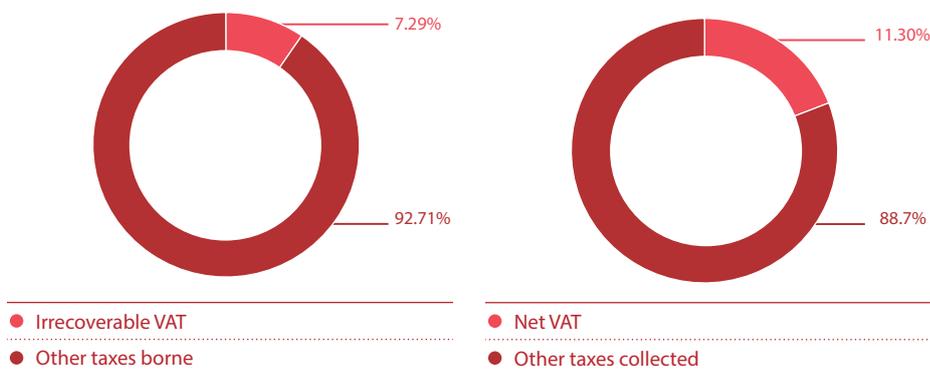
VAT

VAT, a tax borne and collected

VAT is a tax borne (i.e. irrecoverable VAT) as well as a tax collected (i.e. Net VAT which is the result of output VAT minus input VAT).

As shown in Charts 19 and 20, VAT represents on average 7.29% of the taxes borne and 11.30% of the taxes collected.

Charts 19 and 20: Average VAT share among participants (in %)



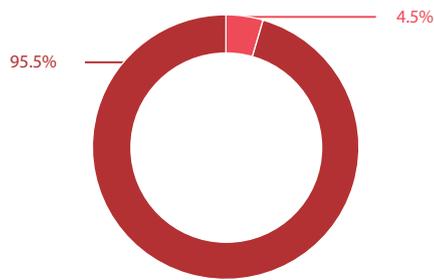
In absolute figures, VAT borne amounts to € 18.4M and VAT collected amounts to € 92.4M, which means that on average, for every € 1 irrecoverable VAT paid, € 5 net VAT is collected by the participating companies.

¹⁷ Two outlying results are excluded to give a trimmed average of € 74,056.

¹⁸ STATEC-ESS 2010. The average national wage is € 53,107 in 2010.

The total amount of VAT (borne and collected) of € 110.9M represents 14.20% of the total taxes contributed by the panel and 4.54% of the total VAT received by the Luxembourg tax administration (Chart 21)¹⁹.

Chart 21: VAT share to government VAT receipts (in %)



- VAT share of TTC participants
- Other VAT revenue

The financial sector only collects VAT on part of its activities. Most banking and financial transactions are VAT exempt, which explains why financial institutions are limited in their ability to recover VAT on expenses and hence incur the biggest share of irrecoverable VAT.

When they export, manufacturing and commercial companies do not charge and collect VAT but are still able to recover input VAT. Since many manufacturing companies and service providers in Luxembourg work with foreign clients, this also explains why VAT collected remains relatively low compared to other EU countries. In Luxembourg, net VAT represents 11.3 % of the taxes collected, while for instance in the UK it represents 17.1 % as shown by the local TTC survey.

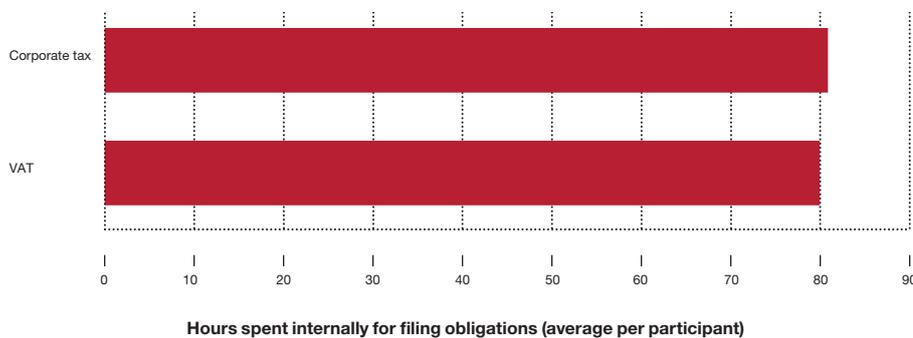


¹⁹ The Luxembourg VAT revenue amounts to € 2,441,400,000 in 2010. STATEC, "Impôts et cotisations sociales 1970-2012".

VAT reporting

On average, VAT requires almost the same amount of time as corporate tax to file tax returns in Luxembourg.

Chart 22: Time spent to comply with corporate and VAT filing obligations (in hours)



This figure is likely to rise in the future since the rules on periodicity of filing changed in 2013. Some taxpayers who currently file VAT returns on an annual basis will also be required to submit periodic (monthly or quarterly) returns.

VAT input and output tax

Participants reported an average ratio of irrecoverable VAT of 43.48%. This clearly shows that VAT is a direct cost to companies with a limited recovery right, i.e. essentially financial institutions. It is often said to be the fourth most important expense of a bank after people, IT and building costs.

For the sake of comparison, the results of the UK TTC survey for the same year shows that the average irrecoverable ratio

announced by UK financial services providers is 40.2%, i.e. financial institutions would recover 3% more input VAT than in Luxembourg. On the other hand, this must be balanced with the VAT rate (Luxembourg applies the lowest in the EU with 15%) and the nature of the financial activities which attract more or less VAT. This could explain why irrecoverable VAT represents not more than 7.29% of the total taxes borne by the

participants although the majority of them is active in the financial sector.

Chart 24 shows that VAT is also an important compliance burden. In size, output VAT is equivalent to 4.27% of total revenue although most participants collect relatively low amounts of VAT because their services are exempt or their products are exported. Not only is the company responsible for the payment of VAT but it is also exposed to fines in case of mistakes, which could be proportional to this figure.

Chart 23: Recoverable and irrecoverable VAT (in %)

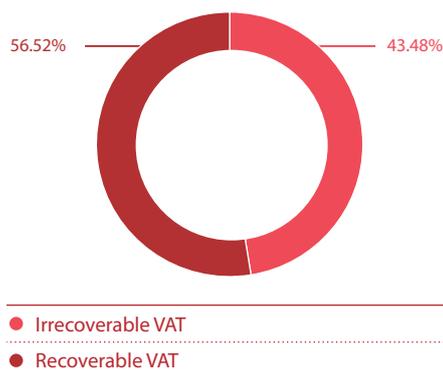
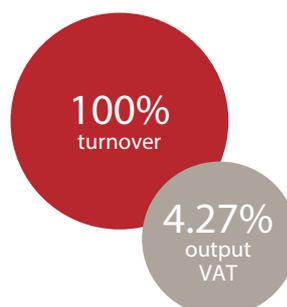


Chart 24: Average impact of output VAT to participants' turnover (in %)



E-VAT

Based on this study, more than 50% of the respondents use e-VAT. During the period surveyed, electronic filing of VAT returns was still optional, but it has become an obligation since 2013 for all companies filing periodic VAT returns.

International comparison

Luxembourg Total Tax Contribution survey results compared to other countries

PwC has conducted TTC surveys in Australia, Belgium, Canada, India, Japan, the Netherlands, South Africa, Switzerland, UK and USA. These studies relate to financial years running from 2006 to 2011. The consistent methodology used in all PwC Total Tax Contribution studies enables some cross-country comparisons.

Table 3: International comparison of Total Tax Contribution survey results

	L	CH	CA (1)	NL (2)	IN (3)	SA (4)	AU (5)	US (6)	UK (7)	J (8)	B (9)
N. of Taxes	31	49	67	31	23	22	53	200	24	57	92
Av. taxes borne	8.5	18.0	14.0	10.5	8.0	6.9	6.0	16.3	9.1	15.9	11.8
Av. Taxes coll.	4.4	10.0	6.0	4.1	3.0	3.3	3.0	9.6	4.3	6.9	5.1
Av. N. of Taxes	12.9	28.0	20.0	14.6	11.0	10.2	9.0	25.9	13.5	22.8	16.9
TTC/ Turn.	14%	11%	15%	23%	15%	15%	14%	11%	16%	5%	16%
Av. TTR	24%	25.80%	27.60%	31%	35.06%	36.30%	40.28%	42.78%	45.28%	48%	52.10%

(1) Canada's data pertain to financial year 2006

(2) NL's data pertain to calendar year 2007

(3) India's data pertain to years to 31 March 2007 & 31 March 2008

(4) South Africa's data pertain to year to 31 March 2010

(5) Australia's data pertain to year to 30 September 2010

(6) US's data pertain to financial year 2007

(7) UK's data pertain to year to 31 March 2011

(8) Japan's data pertain to year to 30 March 2011

(9) Belgium's data pertain to calendar year 2006

Average number of taxes

In respect of the average number of taxes (borne and collected), Luxembourg is competitive, with an average of 12.9 and ranks fourth among the countries having the lowest number of tax payments. Australia is first with on average 9 tax payments whereas Switzerland is the last with on average 28 tax payments.

This result reflects the fact that Luxembourg has a fairly centralised tax system. Of the 31 Luxembourg taxes borne and collected overall, all are levied by the Luxembourg direct tax authorities (*Administration des contributions directes*), VAT tax authorities (*Administration de l'enregistrement et des domaines- eTVA*) and the Customs and Excise Agency (*Administration des douanes et accises*), apart from MBT (local authorities).

These figures are the highest in the US and Switzerland because of the federal tax system of these countries: 16.3 taxes borne and 9.6 taxes collected in the US, and 18 taxes borne and 10 taxes collected in Switzerland.

TTC to turnover

Luxembourg has an average TTC to turnover of 14% which is below the average European rate, i.e. 16%²⁰. Luxembourg stands at second place after Switzerland with 11% but before Belgium and UK both at 16% and the Netherlands at 23%.

TTR

Luxembourg TTR of with 24% has the lowest rate among the other countries. Switzerland closely follows Luxembourg, standing at second position with a TTR of 25.8%. Canada with 27.6% and the Netherlands with 31% are also very close to the Luxembourg rate. This could suggest that Luxembourg relies more heavily on taxes that are collected by companies than the other countries. However, it is important to stress that the TTR is affected by several factors, for example:

- Specific tax exemption such as exclusion of dividends received from a foreign subsidiaries.
- Special tax credit (tax credit for investment, foreign tax credit).
- Government decisions (e.g. the split of social security contribution between employers and employees).

The scores for Luxembourg in terms of TTR need to be assessed against the background of a relatively high overall employment cost.

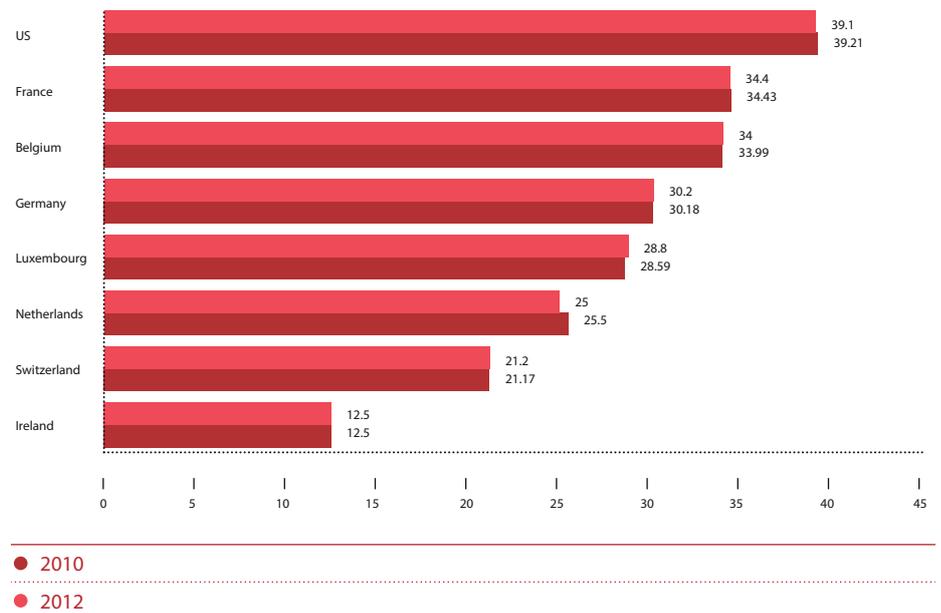
Comparison of OECD corporate tax rates and tax revenue as percentage of GDP

Corporate income tax rates within the OECD countries mentioned in the chart below did not substantially change between 2010 and 2012.

Luxembourg stands at 4th place in the sample for corporate rate (aggregate of CIT and MBT) after Ireland with 12.5%, Switzerland with 21.2% and the Netherlands with 25%.

It can be observed that four countries have seen their corporate income tax rate increased (i.e. Germany, Belgium, Switzerland and Luxembourg) while three others have seen their rate decreased (i.e. France, USA and the Netherlands) and one remained stable (i.e. Ireland).

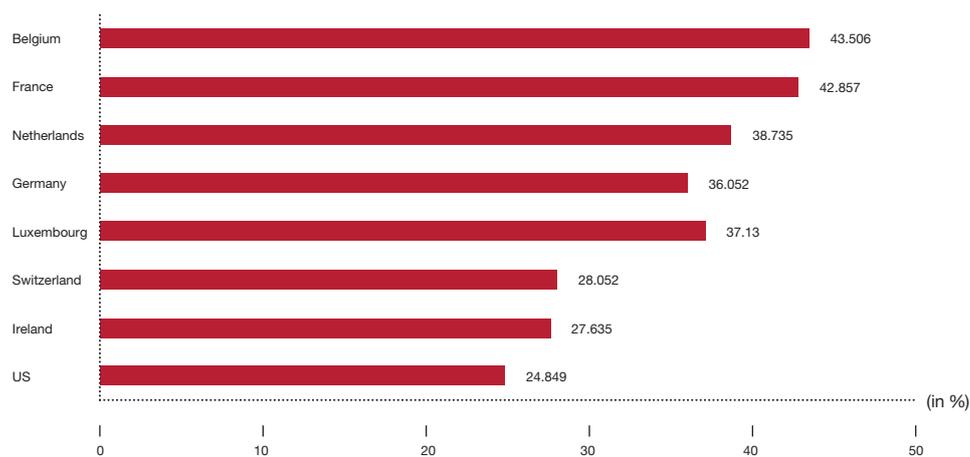
Chart 25: Comparison of corporate income tax rates among some OECD countries (in %)²¹



²⁰ Rate established based on Switzerland, the Netherlands, UK and Belgium data.

²¹ OECD Tax Database, C-Corporate and capital income taxes, Table II.1 Basic (non-targeted) corporate income tax rates

Chart 26: Total Tax Revenue as percentage of countries' GDP in 2010



● Total tax revenue as % of countries GDP

According to the OECD, Luxembourg tax revenue compared to GDP increased between 2008 and 2010, from 35% to 37.13%. This means that the private sector has been subject to more tax pressure to offset the recent successive economic downturns Luxembourg.

Appendices



Appendix 1

List of Luxembourg taxes borne and collected

<i>5Ps taxes</i>	<i>Taxes borne</i>	<i>Taxes collected</i>
Profit taxes	Corporate income tax	Withholding tax of 15% on distributed dividend
	Municipal business tax	
Property taxes	Net wealth tax	
	Subscription tax	
	Property tax	
	Registration tax (on transfer of real estate property, on rental agreements, on exchanges of real estate property)	
Product taxes	Irrecoverable Value Added Tax (VAT)	Net Value Added Tax (VAT)
	Insurance Premium Tax (IPT)	Insurance Premium Tax (IPT)
	Motor vehicle tax	Excise duty
	Fuel excise duty	Tobacco excise duty
	Car registration duty	Alcohol excise duty
	Boat registration duty	
People taxes	Social security - employer's share	Wage tax
		Withholding tax on pension schemes
		Social security - employee's share
		Withholding tax of 20% on directors' fees
		Withholding tax of 10% on some interests paid or attributed to resident individuals
		Withholding tax of 20% on interest paid to non-resident, EU individuals
Planet taxes	Tax on large commercial vehicles	
	Garbage tax	
	Energy tax	
	Carbon tax	
	Kyoto duty	Kyoto duty
Total	18	13

Appendix 2

Sector descriptions

- **Financial Services:** banking, asset management, insurance, etc.
- **Manufacturing Industry:** industrial engineering, automotive, industrial products, etc.
- **Commerce & Services:** retail, public transportation, etc.

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Special thanks to Frédéric Wersand for his contribution on the VAT section.

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